GOVERNMENT OF INDIA
FINANCE
LOK SABHA

UNSTARRED QUESTION NO:2262
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REER of Rupee
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Will the Minister of FINANCE be pleased to state:

(a) the method and reason behind calculating the Real Effective Exchange Rate (REER) of the Indian Rupee;
(b) the weightage assigned to various currencies while calculating the index along with the reasons therefor; and
(c) the details of REER of the Indian Rupee between 2004-2015?

Answer

MINISTER OF STATE IN THE MINISTRY OF FINANCE
(SHRI JAYANT SINHA)

(a) Real Effective Exchange Rate (REER) is defined as a weighted geometric average of nominal exchange rates of the home currency in terms of the foreign currencies adjusted for relative price differentials. With the launch of new Consumer Price Index (CPI), measuring changes in prices of goods and services consumed by rural and urban households, CPI based REER index is computed for India by the Reserve Bank of India (RBI). The CPI based index of REER is the most frequently used indicator of competitiveness across countries. REER index constructed using CPI for both India and trade partner countries would ensure a higher degree of comparability of former's international competitiveness vis-Ã -vis trading partner countries. REER has mainly three parameters (i) exchange rate of respective countries, (ii) trade weights and (iii) relative prices. REER index for Indian rupee is computed based on six currency as well as thirty-six currency basket.

(b) The RBI calculates CPI based REER index using 3-year moving average trade weights with a view to suitably reflect the dynamically changing pattern of India's foreign trade with its major trading partner countries. In order to calculate the weights, the geometric average of India's bilateral trade (exports plus imports) with countries/regions represented by the six and thirty six currencies during the preceding three years has been taken. The weight of each country/currency in the six and thirty-six currency basket is given in Annex-I

(c) The details of REER indices (6-currencies and 36 currencies- trade weights) of the Indian rupee since 2004-05 are given in the table below.

Table : Indices of REER of the Indian Rupee
(Base Year: 2004-05=100)

Year	6-currency basket	36-currency basket
2004-05	100.0	100.0
2005-06	104.4	102.4
2006-07	103.8	100.8
2007-08	113.4	109.2
2008-09	103.9	99.6
2009-10	110.7	103.9
2010-11	124.5	112.7
2011-12	121.2	110.3
2012-13	117.2	105.6
2013-14	112.8	103.3
2014-15	119.9	109.0
2015-16 (P)	123.5	112.1

P: Provisional. Source: RBI

Annex-I
Trade weights of 36 and 6 countries for 2015-16

Sl.No.	36 countries	Weight	6 Countries	Weight
1	Euro area	0.120	Euro	0.299
2	China	0.105	China	0.262
3	UAE	0.099	USA	0.240
4	USA	0.097	Hong Kong	0.076
5	Saudi Arabia	0.068	Japan	0.064
6	Switzerland	0.039	UK	0.058
8	Hong Kong	0.031		
9	Indonesia	0.030		
7	Singapore	0.029		
12	South Korea	0.027		
10	Kuwait	0.026		

11 Japan 0.026
13 Nigeria 0.025
15 Qatar 0.025
14 UK 0.023
18 Malaysia 0.023
16 Iran 0.022
17 Australia 0.021
19 South Africa 0.019
20 Brazil 0.016
21 Thailand 0.014
22 Vietnam 0.012
23 Taiwan 0.010
24 Russia 0.010
25 Bangladesh 0.010
26 Israel 0.009
27 Turkey 0.009
28 Mexico 0.009
29 Sri Lanka 0.009
30 Egypt 0.008
31 Canada 0.008
32 Kenya 0.006
33 Sweden 0.004
34 Pakistan 0.004
35 Argentina 0.003
36 Philippines 0.003